

## Revenue

Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies (which subsequently became three) and 46 subsequent companies that ended a 4-year legal battle that included 46 states, and 6 other entities. Currently, Montana is eligible for 2 types of payments: 1) on-going annual payments (to be received April 15th); and 2) strategic contribution payments (from FY 2008 through FY 2017). The MSA places no restrictions on how states are to spend the money.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The three most important are the adjustments for inflation, volume of cigarettes shipped nationally, and participating manufacturers' (PM) loss of market share (PM lost market share in 2003). Montana's annual share will increase by a minimum amount of 3 percent or more if inflation is greater than 3 percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. Proceeds may be reduced if it is proven that PM have lost a significant portion of market shares due to disadvantages caused by the MSA.

The table on the right shows the revenue Montana has received through FY 2006 and amounts expected in FY 2007, as contained in HJR2. The increase in revenue due to larger payments by tobacco companies and the start of the strategic contribution payments mask the reduction caused by the anticipation that PM will withhold a portion of their payments in the 2007 biennium until the cause of the loss of market share is proven.

## Distribution

In FY 2000, the revenue received from the MSA was deposited to the general fund. However, due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, beginning in January 2001, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent tobacco trust fund. Since the legislature has not yet specified in statute the exact percentage to be

Money from both allocations can be used for tobacco disease prevention and to fund the Tobacco Prevention Advisory Board. Money not appropriated within two years is transferred to the tobacco trust fund. The remaining 11 percent of the MSA money is deposited to the general fund. Senate Bill 485 authorized the transfer of \$5,831,360 in FY 2004 and \$6,057,600 in FY 2005 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account.

Tobacco Settlement and Tobacco Trust Revenues and Distributions									
Tobacco Settlement Revenue Allocations						Tobacco Trust Interest Earnings Allocations			
Current	State Special Revenue								
Distribution %	11%	40%	32%	17%	100%	90%	10%	100%	
Fiscal Year	General Fund	Trust Fund	Treat/Prevention	CHIP, MHA	Total	State Special	Tobacco Trust	Total	
2000 Actual	\$34,804,411	\$0	\$0	\$0	\$34,804,411	\$0	\$0	\$0	
2001 Actual*	15,989,101	10,650,750	0	0	26,639,851	98,519	71,172	169,691	
2002 Actual	18,647,411	12,431,607	0	0	31,079,018	1,015,407	22,212	1,037,619	
2003 Actual	18,699,611	12,466,407	0	0	31,166,018	1,647,194	160,832	1,808,027	
2004 Actual**	2,933,928	10,668,829	8,535,064	4,534,252	26,672,073	2,402,846	266,983	2,669,829	
2005 Actual	2,977,777	10,828,281	8,662,625	4,602,020	27,070,703	2,882,103	320,234	3,202,336	
2006 Actual	2,733,614	9,940,413	7,952,330	4,224,676	24,851,033	3,048,774	338,753	3,387,527	
2007 Estimate	2,821,940	10,261,600	8,209,280	4,361,180	25,654,000	3,545,100	393,900	3,939,000	
2008 Estimate	3,855,390	14,019,600	11,215,680	5,958,330	35,049,000	4,110,300	456,700	4,567,000	
2009 Estimate	3,995,530	14,529,200	11,623,360	6,174,910	36,323,000	4,871,700	541,300	5,413,000	
Totals	<u>\$107,458,713</u>	<u>\$105,796,688</u>	<u>\$56,198,339</u>	<u>\$29,855,368</u>	<u>\$299,309,108</u>	<u>\$23,621,942</u>	<u>\$2,572,086</u>	<u>\$26,194,028</u>	

\* In addition, \$1,143 general fund was recorded as prior year revenue.

\*\* In addition, \$22,189 of interest to the trust was recorded as prior year revenue.

distributed to the tobacco trust fund, the revenue estimates assume 40 percent. From July 2000 to June 2003, 60 percent of the money was deposited into the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning July 2003, 32 percent of the total tobacco settlement money funds tobacco prevention/cessation programs and 17 percent of the total funds the Children's Health Insurance Program and programs of the Comprehensive Health Association (CHA). Senate Bill 485 (17-6-606, MCA) enacted by the 2003 legislature allowed the 32 percent allocation to be used for human service programs and the 17 percent allocation to be used to match federal Medicaid money. These allowances terminated the end of June 2005.

The table also shows actual settlement amounts distributed to the general fund, tobacco trust fund, and state special revenue accounts through FY 2006 and the amounts estimated to be distributed in FY 2007-2009.

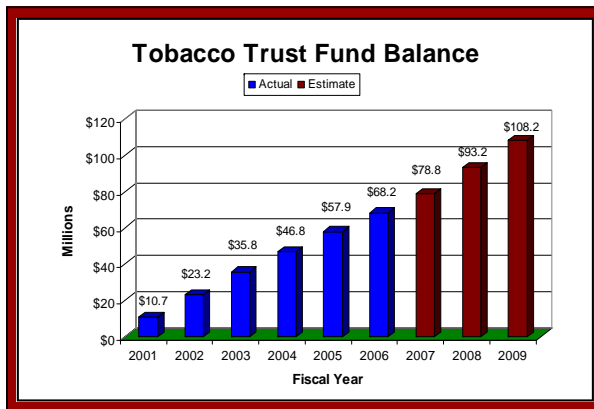
As stipulated in the Montana Constitution, interest earnings from the tobacco trust fund are to be distributed:

1. 90 percent for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage related to the health care needs of the people of Montana; and
2. 10 percent to the tobacco trust. The table also shows these actual and estimated amounts.

## Tobacco Trust

The tobacco trust fund began receiving deposits of settlement proceeds and interest earnings in FY 2001.

The chart shows the fiscal year end fund balances through FY 2006 and the balance estimated by the legislature for FY 2007. Money in the tobacco trust fund can be spent if approved by 2/3 of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money that supports tobacco disease prevention programs that existed on December 31, 1999.



## Expenditures

Tobacco Settlement State Special Revenue Expenditures FY 2002-2006			
Fund Name	Agency	Function Name	Expenditures
02789 (17%)-CHIP/MCHA Tobacco Settlement Fund			
	St. Auditor	Insurance Services	\$1,809,162
	DPHHS	CHIP Administration	367,954
	DPHHS	CHIP Benefits	7,923,572
	DPHHS	Medicaid Benefits	2,649,622
	DPHHS	Program 11 Indirect Costs	102,964
	DPHHS	Program 2 Indirect Costs	1,038
	Sub-total		\$12,854,312
02790 (32%) - Statewide Tobacco Settlement			
	DPHHS	Medicaid Benefits	\$63,714
	DPHHS	Tobacco Settlement Admin	6345662.59
	DPHHS	Tobacco Settlement Benefits	5,354,846
	DPHHS	Prevention & Stabilization Account*	11,888,960
	DPHHS	Program 7 Indirect Costs	129,119
	Sub-total		\$23,782,302
02987 - Tobacco Trust Interest			
	DPHHS	Medicaid Benefits	\$7,626,217
	DPHHS	Nursing Home Services	3,441,277
	Sub-total		\$11,067,494
	Total		<u>\$47,704,108</u>

\* One-time discussion to this account

*"The Master Settlement Agreement places no restrictions on how states are to spend the money."*



### LFD Mission Statement

We are committed to enhancing the legislative process through understandable and objective fiscal policy analysis and information.

## The Legislative Fiscal Division Presents

# Tobacco Settlement Financial Summary

From FY 2007 through FY 2009  
November 2006 Fiscal Pocket Guide



*"In accordance with the agreement, the ongoing payments will be received in perpetuity."*



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